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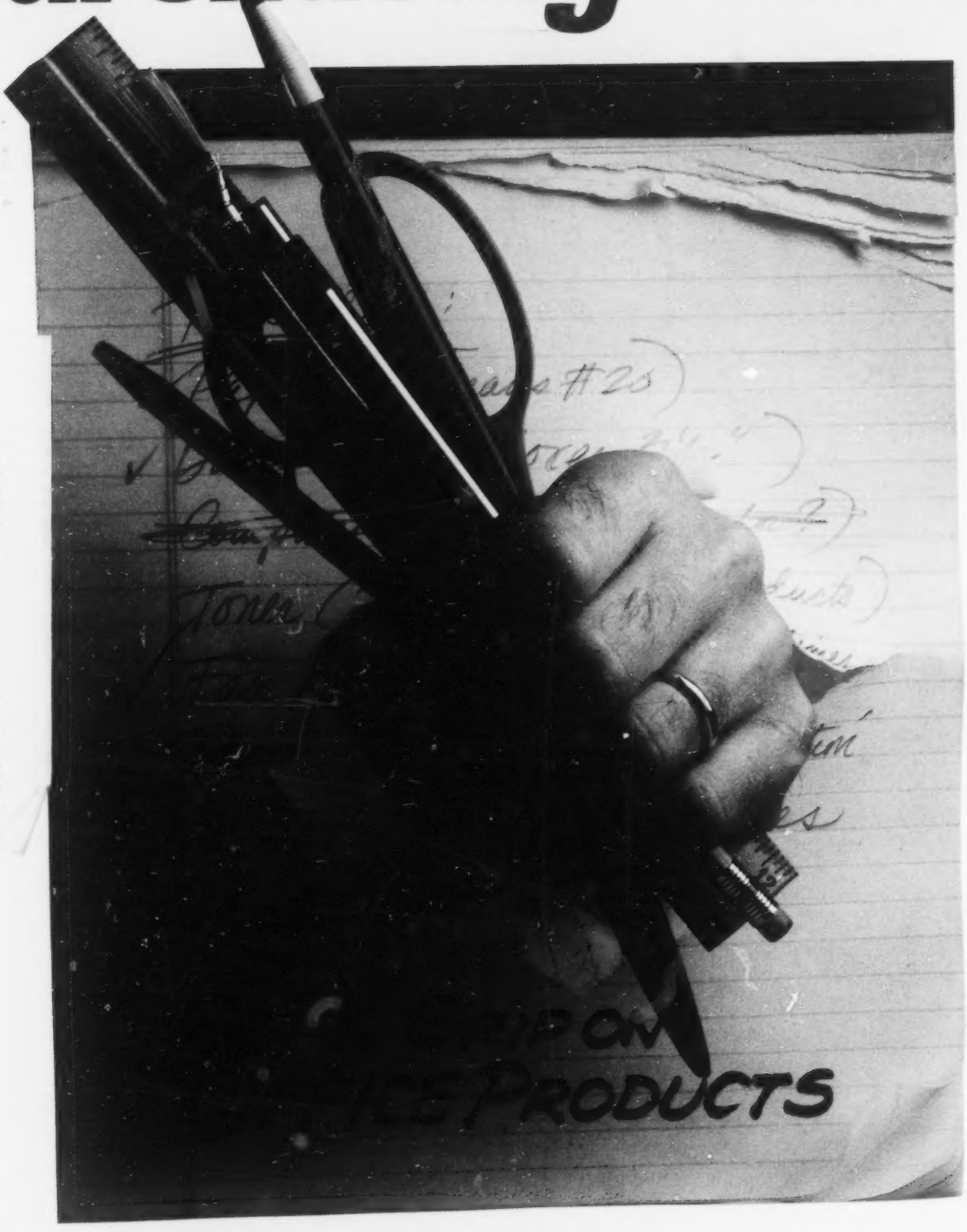
# PurchasingWorld®



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**SSCI President Sharkey views 1988**

**Pinkerton: smart commodity codes**

**Buyer's guide to remanufactured products**

# PurchasingWorld®

*Helping you manage the business of buying*

March 1988 Vol 32 No. 3


## Cover story


**28 Get a grip on office products**
The average purchasing professional in charge of procuring office supplies spends more than $400,000 per year. If you think there are possibilities for savings in that number, you're right. And *PurchasingWorld* spells them out in this report.

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The Computer and Business Equipment Manufacturers Association (CBEMA) is very bullish on the office equipment market. Their figures in the various product categories pinpoint the reasons for their positive outlook.

**38 Choosing the right vendor saves more than money**
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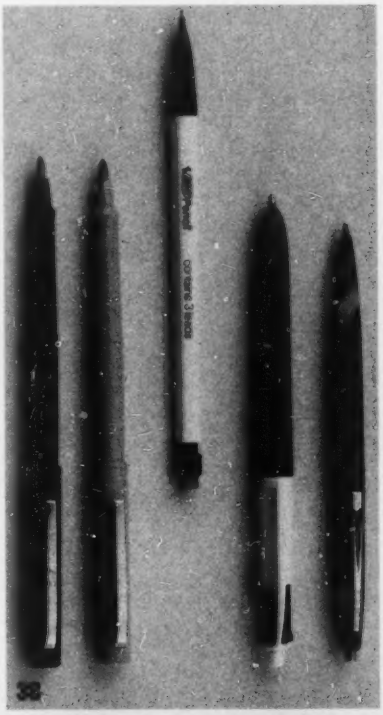


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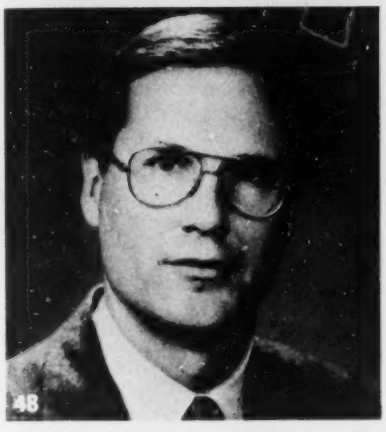


*Cover photo by Paul Silla, Design Photography, Cleveland, Ohio*

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# PW POINTERS

### Fastener testing provided in 48 hours

The quality and integrity of industrial fasteners can be determined quickly through a testing program begun by Herron Testing Laboratories. Responding to concerns about the existence of counterfeit bolts and nuts that may fail in use, Herron will identify suspect fasteners by chemical content and performance criteria within 48 hours after receiving samples. Explains John L. Herron, president, "Unfortunately there's no visible difference between authentic and counterfeit fasteners. Some are deliberately mismarked and sold as higher-strength grades. The naked eye cannot determine improperly heat-treated fastener materials or distinguish zinc plating from the stronger, more resistant cadmium plating."

The Herron program offers two test options: mechanical, metallurgical, and chemical analyses to determine elemental content, ultimate strength and yield properties; and, individual property or element determinations requested by the user. **Circle 1**

### 'Secret' semiconductor part numbers revealed in latest distributor catalog

Have you ever been stumped trying to decipher a 'special' semiconductor part number for a product that has just failed and has shut down production? Many manufacturers of electronic equipment like to put such 'specials' in their products, hoping to make the replacement sale when the part fails in the field. However, that manufacturer isn't always around or findable when the part fails.

Henry R. (Cappy) Caplan, the guru of replacement power semiconductor products, has taken the mystery out of special semiconductor part numbers in his firm's catalog #1287. The catalog lists thousands of obsolete, special, proprietary and just plain hard-to-find diodes, SCRs, modules and bridges that the firm has identified and sourced.

Caplan's catalog and his firm's expertise in determining which is the right power semiconductor for a specific replacement job can save buyers a tremendous amount of time and can help get production back on line overnight. Aptly, his firm is named MRO Electronic Distributors, Inc., and it's located in Hollywood, FL. **Circle 2**

### What to consult to find 12,000 consultants

Who consults on what and where to find them is detailed in the 2,289-page Consultants and Consulting Organizations Directory from Gale Research Co.

Each consultant for firm is listed in one of 14 subject categories, from "Agriculture, forestry, and landscaping," to "Social issues and concerns". The largest sections in the new edition are "Business and finance," "Engineering, science, and technology," and "Marketing and sales." Over 1,100 pages of indexes are provided to facilitate use of the directory which sells for $380 for each two book set. **Circle 3**

### How to prevent outsiders tapping into your computer system thru electrical lines

Data from computers, including PCs and other electronic equipment, can easily be retrieved (illegally) from any ordinary electrical power line. To protect sensitive information from being siphoned away through electrical lines International Computer Power, Inc., has available the RotoPlus load/line isolator for commercial, industrial, and defense industry applications.

The RotoPlus prevents data from leaving a computer and coming out a power line. This provides impenetrable security not obtainable through other technologies. Equipment of this type is essential for facilities requiring total protection from industrial espionage, breach of security, and unauthorized access to confidential records and proprietary data.

Prices of the RotoPlus products range from $2,000 to $20,000 depending upon the size of the system. **Circle 4**


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Robert S. Reichard, executive editor

## Weak demand-pull and wage-pull factors dampen inflationary pressures

Earlier fears of an imminent uptick in the overall inflation rate are beginning to fade.

One major reason: Demand gains are expected to be rather subdued over the next few quarters as: 1) consumers become a bit more selective in their purchases; and, 2) industry begins to work off some of its finished goods inventories.

The inventory buildup has been limited to the wholesale and retail spheres. Even so, this could have some impact on the producer level as distributors hold back on the placement of new orders.

In any event, there's little to indicate a repeat of the recently concluded fourth quarter when demand (as measured by industrial production) jumped by a fairly substantial 6% (at annual rate). Best bet for the first half of this year—only about a 1-2% annual rate of advance, hardly enough to spark any new demand-pull pressure on prices.

Wage-pull inflation also remains quite weak. Over the past year, for example, nationwide wage and benefit costs rose over 3.6%—the same rate as in 1986. Coupled with continuing productivity gains, this small advance has actually resulted in decelerating unit labor cost increases.

**Moreover,** zero in on the manufacturing sector and unit labor costs have actually declined—falling to their lowest level in more than six years—thereby lessening the need for wage-cost pass-through.

There are other positive signs too. For one, the steady rise in spot raw materials prices seems to be leveling off. Indeed, *PW*'s sensitive price barometer is actually down about 1% over the past few months.

**Still another encouraging trend:** The new downdrift in interest rates is helping to reduce inventory carrying charges and other financing costs.

Nor have rising import tags managed to change things all that much. Thus over the past year when import prices (including food and fuel) rose by almost 15% comparable domestic averages advanced by less than 5%. Implication: Domestic producers are acting with restraint in an all-out effort to recapture previously lost market share.

**What does it add up to?** PW equations now point to only a 3-3.5% annual rate of increase in overall industrial prices over the first half of this year. This would be a bit under the 4%-plus rate of the last six months of 1987.

Another possible consumer price restraint is the recent distributor inventory buildup noted earlier. Other things being equal, this should mean more store-wide sales in the weeks and months immediately ahead as retailers move to lighten shelf loads.

Still another positive cost-of-living sign: ample or more-than-ample food supplies. This condition has prompted the Agriculture Department to predict only a 2% increase in supermarket food prices for this year—less than half last year's 4% advance.

## Import prices

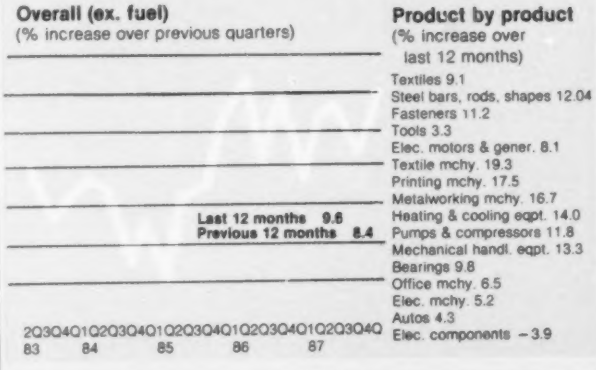
The weak dollar continues to take its toll, driving import prices up 9.6% over the past year—even after eliminating the effects of volatile fuel tags.

Add in the 8.4% non-fuel price advance of the previous 12 months, and the increase over the past two years comes to 18%.

Nor does the rise show any signs of levelling off. The latest Labor Department reading suggests a 3% overall advance over the most recent 3-month period—with individual sectors shaping up along these lines:

- **Crude materials:** A 3.8% fourth quarter rise brought the 12-month boost to 14.4%—despite some decline in lumber tags. Substantial increases over the past three months were registered for metal ores and scrap (10.1%), crude rubber (9.4%), and pulp and wastepaper (5.7%).
- **Chemicals:** Prices jumped 4.9% over the past quarter, bringing the 12-month advance to near 12%. Manufactured fertilizers (up 25.7%) led the upward trend.
- **Intermediate manufactured products:** Quotes rose 3.3% this past quarter—and 13.3% for 1987 as a whole. Some of the latest quarterly increases: iron and steel (5.1%), nonferrous metals (4.5%), textiles (3.4%), and paper and paperboard (1.8%).
- **Machinery and transport equipment:** A rise of 2.4% reversed a fractional third quarter decline. Largest quarterly boosts were in general industrial machinery (5.1%), specialized machinery (5.3%), and metalworking machinery (4.0%).
- **Miscellaneous manufactures:** Prices advanced during the 4Q 1987 as follows: plumbing, heating, and lighting fixtures (4.9%), professional and scientific equipment (4.3%), and photo and optical goods (3.3%).

### Import prices: move up again



## Polyolefin market trends

Polyolefin (polyethylene and polypropylene) should remain in relatively tight supply over the next few years.

So say analysts at Quantum Chemical Corporation who figure that announced capacity additions through 1992 will just about keep up with demand. Result: Near 95-100% operating rates (as a percent of effective capacity) for the overall polyolefin sector through this 5-year period.

The report hastens to add that snugness is not the same thing as outright shortfalls. Unlike last year, when polypropylene demand exceeded industry capacity by 4% and high-density polyethylene (HDPE) demand was virtually equal to industry capability, there should be enough to go around.

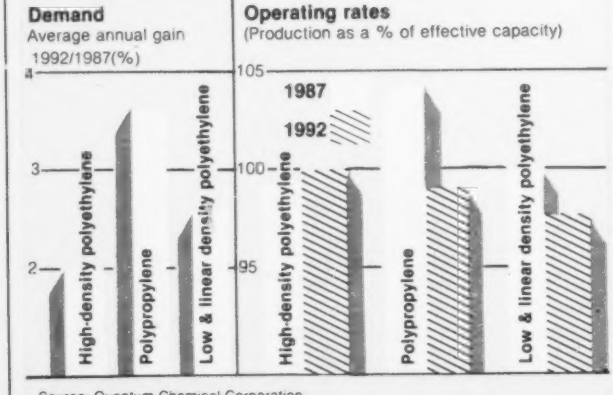
Another reason shortages are not likely: Demand gains will be quite modest—averaging out near 3% a year. That's a sharp deceleration from last year, when inventory buying pushed LD/LLDPE, PP, and HDPE prices up 8.4%, 12.3%, and 16.3%, respectively.

On an end-use basis, film should continue to be the number one growth area—rising at about a 5.5% annual rate (reaching 8.1 billion lb in 1992). Blowmolding grades should also rack up bigger-than-average (4%) rate of growth—reaching about 3.6 billion lb in 1992.

On the other hand, injection molding will come in with about a 2% advance—still enough to bring totals during the latter year up to 4.7 billion lb.

- **Fibers/filaments:** Up 3.5% a year through 1992—largely due to increased demand for PP.
- **Sheet extrusion:** Up just shy of 3% a year—with both HDPE and PP seeing much greater demand.
- **Pipe/conduit:** Up 3% a year—mainly on the strength of increased demand for HDPE.
- **Wire/cable insulation:** Only modest increases are anticipated. But LLDPE will account for 56% of this market by 1992—compared to only a 40% share in 1986.

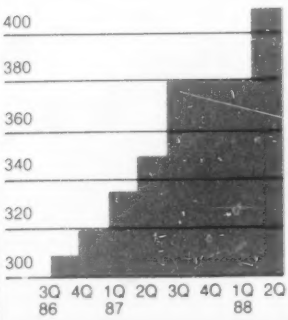
### Polyolefin market trends in 1992




Source: Quantum Chemical Corporation

### Linerboard prices

($/Ton)




## Paper

January increases are holding up in such major areas as newsprint, uncoated white sheet, coated groundwood and free sheet, and market pulp. More hikes are coming as mills move to boost linerboard $30/ton (to $410). This, in turn, could put new upward pressure on corrugated boxes. Groundwood specialties—up 34% since early 1986—are also expected to rise again, probably by 7%. Behind all this bullishness: Continued high operating rates—with coated paper, uncoated free sheet, linerboard, and newsprint all expected to operate in the 90%-plus range this year.

## Steel

Price averages continue to move up, with boosts now scheduled for pipe and tube, flat-rolled products and stainless. Almost every major item is up since last summer—with both cold rolled sheet and plate advancing $20/ton over this period—to $485/ton and $415/ton, respectively. But future increases will be more restrained as demand levels off. Consumption could drop slightly in 1988—from near 90 million tons to around 87 million—as declines in auto and construction demand more than offset gains in the capital goods area. Shipments will follow a similar pattern, dropping off fractionally from 1987's estimated 76 million ton level.

## Glycerine

Recent sharp price cuts have knocked more than 10¢/lb off the going quote—with current levels put in the mid-60s range. Producers aim: To restore order to what has heretofore been a sharply discounted market. The new reductions should also discourage imports—another contributor to the current oversupplied market. The new official listings are said to be more realistic—and should mark the end to price competition that has been plaguing this key chemical for more than a year now.

## Aluminum

Prices continue to edge up, with the average ingot market quote well above 90¢/lb. Fabricated product lines are tending to follow suit. But there could be some topping out by the second half as more metal comes onto the market. Don't expect any sharp correction—for operating rates will remain high and demand will hold up well. On the latter score, industry shipments this year are expected to reach 16.4 billion lb—up

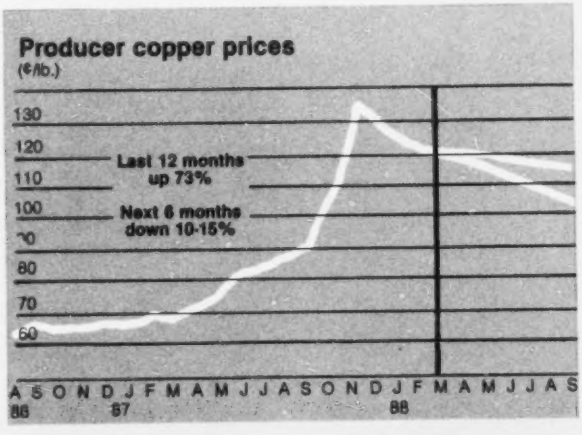
## Copper

**CURRENT SITUATION: Prices have slipped substantially under the $1.46/lb peak hit at the beginning of the year**—both because of less speculative interest and because of the growing belief that supplies are easing up a bit. U.S. refinery inventories have been edging up of late—and U.S. mine output is now running better than 30% ahead of a year earlier. Supplies in the Far East and in Europe have also begun to accumulate.

**DEMAND: The peak consuming season is coming to a close**—and the red metal should be reaching its lowest point of the year by summer. Another demand-rise inhibitor: Construction, which chews up 43% of all copper, is taking a breather this year. Nor is the autos market likely to set records this year. Upshot: Domestic usage won't repeat last year's 3% increase. **Indeed, all signs point to about a 1-2% decline—bringing consumption as low as 2.3 million tons.**

**SUPPLY: The metal, while not exactly abundant, is flowing onto the market more consistently.** New production coming on stream will be hitting the market by midyear. Significant increases are seen in the U.S. (up as much as 9% this year), New Guinea, Chile, Canada, and Australia. All told, Free world output of refined metal could reach 8.7 million tons in 1988—up 4.7% from last year.

**PRICE OUTLOOK:** Copper is a market of excesses—so big swings can't be ruled out. **Basic fundamentals suggest a drift down as the year wears on.** Another 10-20¢/lb. could be shaved by early fall. But because quotes were recently at record levels, the 1988 yearly average will remain high—probably above the 84-85¢/lb reading of 1987. **On the other hand, the longer term looks good for buyers—as lower production costs and new output pressure prices downward.**



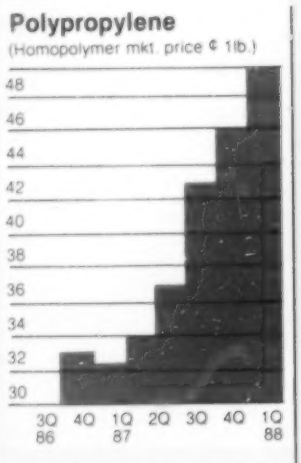

1-2% from last year. Continued increases in exports and declining imports will have positive impacts on the above shipment estimate.

## Natural gas

The combination of a cold winter and changing Federal regulations have pushed prices up some 30% above year-ago levels. Gas at the wellhead now commands about $2/Mcf—well above the $1.30-1.50/Mcf quote of last winter. Equally significant, many suppliers are producing gas from wells that only a year ago were closed down due to poor demand. On the other hand, there's little danger of any near-term shortage. The American Gas Association sees no supply problems until 1990—the year when an estimated 18 Tcf of demand should effectively wipe out the industry's current surplus.

## Polypropylene

Another few cents have been tacked onto the market quote—with homopolymer resin now fetching close to 50¢/lb—far above just a year ago when this plastic was available for 34¢. A combination of factors is behind the run-up—including 1) booming demand—up 13% last year and probably another 7% this year, 2) low stocks—half the normal 30-day supply, and 3) full-capacity operating rates. But some relief on the supply side is on the way, as 1.6 billion lb of new capacity is brought onstream




over the next two years. This should be enough—despite demand gains—to bring operating rates down to 96% this year and 89% in 1989.

## Styrene

Prices continue to climb—with another 4¢/lb increase bringing the going contract tag up to 46¢/lb. And the bullishness is likely to continue as supplies remain tight in part because of anticipated downtime moves by some four major producers. Another sign of strength: High export prices which in recent weeks have risen near 70¢/lb. There's continuing strong downstream demand—with polystyrene requirements expected to rise some 5% this year—all on top of last year's big 8.5% jump.

## Microcomputers in manufacturing

Micros are beginning to make it to the factory floor. Some $666 million was earmarked for these machines last year, and

the figure in volume terms is expected to more than double by 1991, with most of the growth earmarked for physical control operations rather than information processing applications. So say analysts at Frost & Sullivan, who feel this growth will take place despite the availability of programmable logic controllers (PLCs). Reason: Cost. As a spokesman for the firm observes, "It is now possible to buy at least two micros, both with 20 million bytes of hard disk memory, for less than the list of 8,000 bytes of add-on memory for a PLC."

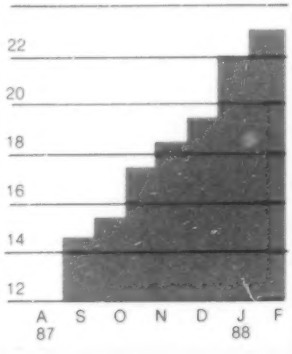
## Lead

New easiness has knocked prices down into the mid-30s range. Nor is any significant rally likely now that the battery-maker buying season is over. Somewhat higher inventories also suggest weakness. Ditto, domestic consumption which will barely top last year's—reaching only 1.177 million metric tons. One bullish factor: An expected pickup in replacement battery demand because autos sold in the good 1984 and 1985 selling years will be approaching the end of their average battery life spans.

## Zinc

Prices have edged up another cent into the 46¢/lb range. Reason: Some temporary tightness through March as demand from both galvanizers and brass producers remains strong. But some softening is expected by late April or May as supplies increase. Also U.S. demand is not expected to be all that robust this year, with chew-up put at only 1.040 million metric tons—not all that much above the 1.014 million estimate for 1987. True, galvanizing use will be up again. But only a fractional increase is seen for brass goods—and die-casting consumption could actually fall by about 3%.

**Ethylene**
(¢ 1lb.)




## Ethylene

Add another cent to the overall price—as tags move up into the 23¢/lb range, some 10¢ above last summer's lows. Blame it on generally tight supplies—with a further rise in prices to near 25¢/lb possible by sometime around midyear. On a rosier note, additional capacity is on the way—notably in the form of numerous small de-bottlenecking projects. More important, a few new grassroots plants (by Dow and Phillips) are now in the planning stages.

## Chemicals and allied products

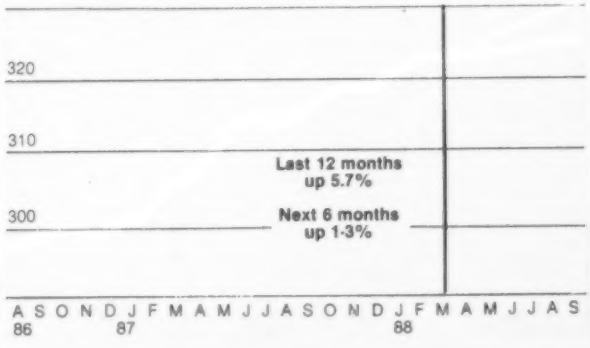
**CURRENT SITUATION: This $215 billion-plus industry is off to a good start in 1988.** Orders are coming in at a nice clip—and this on top of a bullish demand performance in 1987. **Prices are still a headache for many buyers—as new increases continue to be posted in such key areas as organics and plastics**—on top of a 6% increase last year. Other price boosts noted for 1987: overall industrial chemicals (4%), paints (1%), drugs (7%), and agricultural chemicals (3%).

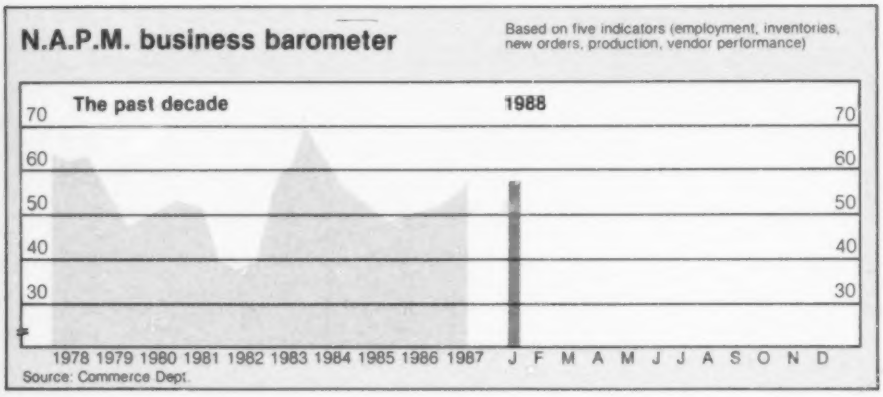
**DEMAND: Look for an advance this year—smaller than 1987's—of about 4% overall.** Optimism is confirmed by the 70% of producers surveyed who are upbeat about 1988—and the other 30% are neutral. The Chemical Manufacturers Association is calling for an 8% dollar gain which would still allow for a fairly big volume advance. Gains predicted for individual sectors: plastics (4%), manmade fibers (1%), drugs (2%), paints (5%), organics (4%), chlor-alkalis (4%), and industrial gases (3%).

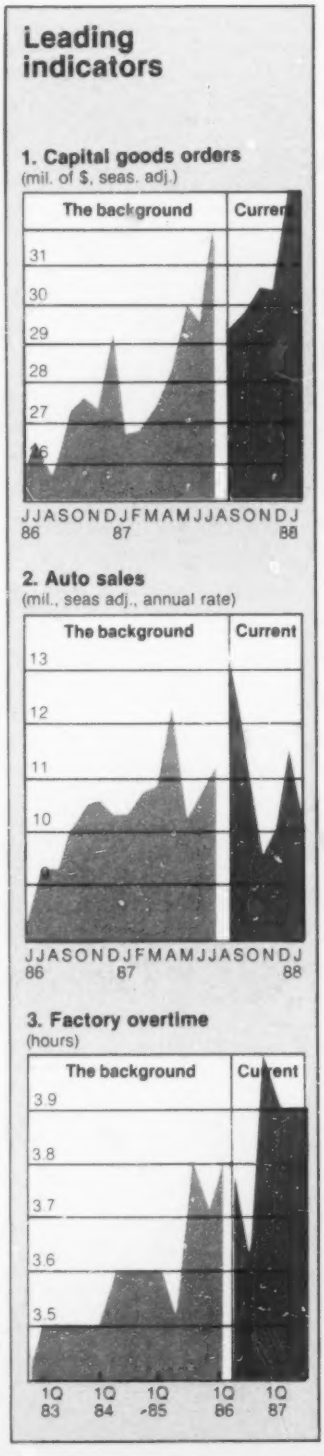
**SUPPLY: Spotty shortages have been noted in recent months—but by and large there's enough to go around.** More capacity is on the way—the industry is increasing its capital spending budget by a significant 14% this year—as more money becomes available from retained earnings and depreciation. And only 10% of the total outlay will be earmarked for overseas expansion, preventing a big jump in factory operating rates. Look for a fractional advance to 3.5% for 1988.

**PRICE OUTLOOK: Increases will be less severe than last year's.** Demand won't be quite as robust and petrochemical feedstocks have softened in line with weak crude oil tags. **Overall, this suggests a 4% annual advance for 1988.** Plastics, however, may advance by 6% because of a tight market situation.

**Chemical & product prices**
(Index: 1967 = 100)




N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1988
70
60
50
40
30
1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 J F M A M J J A S O N D
Source: Commerce Dept.




## KEY ECONOMIC TRENDS

### Slowdown, not downturn

There's a lot of talk about a slowdown being bandied about these days. Such deceleration would be from bigger-than-expected fourth quarter real GNP gains.

But, a slowdown is not the same as a downturn—and the latter is still nowhere in sight. Inventories were built up over the past quarter, but most of this was centered in imported goods where consumers have apparently been balking at higher prices.

To the extent this is true, any near-term inventory impact will be to cut down on imports rather than domestic production. The fact that domestic orders are still on the increase would certainly seem to confirm this evaluation.

Then, too, exports are also increasing in real or volume terms. Other things being equal, this has to have a positive impact on U.S. production activity. One sign of the shift here: A new Dun & Bradstreet survey of 5,000 companies which shows 45% recently experiencing increases in export orders.

Also on the reassuring side: The NAPM business barometer remains well above the neutral 50 mark—57.4 at last report. Another confirmation of buoyancy comes from new plant and equipment surveys, which show American industry planning to spend close to $420 billion on capital items in 1988—up 7% from 1987. Given current price trends, this also indicates a real gain of near 5%.

These capital spending estimates are likely to be attained because of growing U.S. need for new capacity. The typical American factory is now operating at above 82% of its potential—the highest such level in nearly a decade. And with earnings up, an increasing number of American firms also have the wherewithal to finance new expansion.

The consumer sector isn't all that weak, either. Spending totals are down from recent highs, but not by much. Autos are a case in point. Early 1988 sales have been running at over a 10 million unit annual rate—down from the 3Q 1987, but above year-earlier readings.

And consumer attitudes suggest that the next few quarters will be strong, too. The Conference Board's confidence index, for example, has actually been climbing recently—recovering about two-thirds of the loss registered after the stock market plunge.

True, anticipated car purchases over the next few months indicate some decline. But plans to buy new homes are up.

The employment situation also suggests a fairly stable near-term consumer buying trend. The jobless rate, for example, is holding at a low 5.8%. And factory overtime—a mea-

sure of possible new job openings—remains unchanged at a relatively high 3.9 hours.

There are weaknesses, however—especially with the lingering stock market uncertainty. But this should not be enough to prevent continued, albeit modest, advances through the first half.

This *PW* forecast sees industrial production rising at a 1-2% annual rate over the next few quarters. While down a bit from late 1987 readings, that's still enough to keep GNP solidly in the plus column.

## Fringe benefits increase as a percentage of payrolls

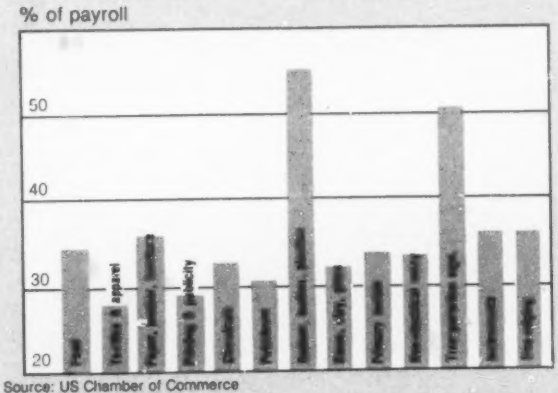
Pay hikes may continue to be modest, but judging from fringe benefit reports, the typical employee is getting more compensation indirectly—in the form of insurance, pensions, vacations, etc.

A new U. S. Chamber of Commerce survey finds that fringes for the nation as a whole come to 39.3% of company payrolls. And, if you zero in on the manufacturing sector, the figure is even higher—something in the order of 42% at latest report.

Keep in mind, however, that these represent about a 5% jump over the past decade. Other key findings of the just-released study:

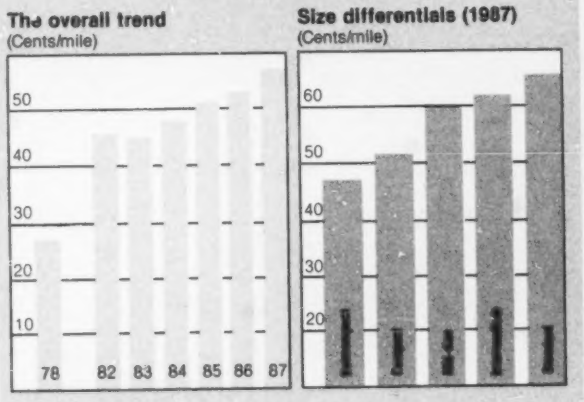
- Payments vary widely among reporting companies—ranging from less than 18% of total compensation in a few cases to over 65% in an even smaller number of instances. In dollar terms, this means anything from less than $3,500 to over $13,000 a year.
- The average payment in 1986 (the latest available period) came to $4.96 per payroll hour; or over $10,000 a year per employee.
- More than one fourth of all benefits go for vacations, sick leave, etc. Other big percentages are earmarked for Social Security and other mandated payments (23%), medical benefits (21%), and retirement (17%).

**Fringe benefits—industry by industry**




Source: US Chamber of Commerce (based on 1986 data)

**The high cost of driving**




Source: Hertz
Assuming car is held 5 years and is driven 10,000 miles per year.

There is significant variation in the fringe benefit programs between industries. At the bottom of the ladder are textiles and apparel where less than 29% of payroll is earmarked for fringes. The highest percentage is in the rubber and plastics industries (57% of payroll).

- Highest payments generally go to workers in the East North Central states, with most other regions clustering around 35-36% of payroll. Also, large firms tend to pay more benefits than smaller ones.
- Pension payments are reported by 88% of the firms. And insurance programs have become almost universal. Thus, 98% of queried companies pay some health insurance, with another 93% providing at least some life insurance.
- Employee payroll deductions are as follows: 2.7% for pensions and savings plans; 0.7% for hospitalization and surgical insurance; and 0.8% for life insurance and other benefits.

## Fleet costs increasing

Owning and operating a fleet or personal car doesn't come cheap these days.

Indeed, if a new Hertz study is correct, the cost comes to more than 51¢/mile for a new, normally equipped, compact (assuming the vehicle is kept five years and is driven 10,000 miles per year). Equally significant, this represents a substantial 5.5% boost above year-earlier estimates.

Moreover, upgrade to an intermediate or standard-size vehicle, and the comparable costs rise to 61¢ and 66¢/mile respectively. And while tabs for the subcompact models come to only 47.5¢/mile, the cost for this type of vehicle has been rising at the fastest clip—advancing almost 18¢ over the past year.

Hertz figures also demonstrate that keeping cars longer can save a lot of money. Specifically, new compacts driven 10,000

miles a year but traded annually cost 62.5¢/mile while ones held for 10 years with the same annual use pattern average out at only 39.8¢/mile. That's a gap of 22.7¢/mile—equivalent of $22,700 over the assumed 10-year life of a car.

Another key finding: Some 75% of all outlays are for so-called fixed expenses such as depreciation, interest, insurance, licenses, taxes, and fees—items largely influenced by the car's purchase price and how long the vehicle is driven. On the other hand, variable costs (gasoline, oil, maintenance, etc.) comprise only about one-fourth of total outlays.

But these variable costs can differ. Example: Parking and tolls in major cities (excluded from the above cost estimates) can add 10-40¢/mile to the average tab. Moreover, driving patterns differ—and this could affect costs for similar autos in the same locale, even if driven for equal mileage and use periods.

Hertz also finds that the trend continues toward smaller cars and longer gaps between trade-ins. On the size score, compacts rather than intermediates are the most typically purchased—and most vehicles are about a foot shorter than they were 15 years ago.

As for car life, new cars are kept an average of 5.4 years against 3.6 in 1972. And the average age of all cars on the road is now 7.6 years—up 1.9 years from the early 1970s.

### This month's breakdown

| | Latest level Index: 1982 = 100 (January) | % change from: Month ago | Year ago |
|---|---|---|---|
| Bearings | 109.5 | 1.1 | 1.8 |
| Bolts, nuts, etc. | 104.7 | −2.9 | 1.7 |
| Chemicals, inorganic | 96.1 | 0.1 | 2.0 |
| Chemicals, organic | 99.7 | 1.7 | 10.4 |
| Concrete products | 109.6 | 0.2 | 0.2 |
| Corrugated cartons | NA | NA | NA |
| Cutting tools, small | 106.6 | 0.1 | 0.0 |
| Electric lamps (bulbs) | 121.4 | −0.1 | 0.7 |
| Electronic components | 115.8 | −0.2 | 0.4 |
| Fans and blowers | 113.1 | 0.8 | 2.4 |
| Foundry and forge products | 107.1 | 0.5 | 1.7 |
| Fuel oil (residual) | 45.8 | −7.8 | 2.0 |
| Furniture, commercial | 121.2 | 0.8 | 3.7 |
| Gasoline | 53.8 | −5.6 | 3.7 |
| Glass, flat | 108.3 | −1.1 | 2.7 |
| Glass containers | 112.6 | 0.1 | 0.1 |
| Gypsum products | 120.5 | −0.7 | −10.0 |
| Hand tools | 118.4 | 0.2 | 3.8 |
| Hand tools, power driven | 110.6 | 0.9 | 1.0 |
| Industrial furnaces | 118.0 | 2.1 | 3.9 |
| Integrating and measuring instruments | 115.7 | 0.9 | 2.4 |
| Internal combustion engines | 110.3 | 0.5 | 1.8 |
| Lubricating oil | 102.1 | 4.4 | 5.5 |
| Lumber millwork | 119.6 | 0.2 | 4.3 |
| Material handling equipment | 105.9 | 0.3 | 1.8 |
| Metal containers | 108.5 | 0.4 | −1.3 |
| Metal mill shapes (nonferrous) | 122.3 | 3.0 | 24.2 |
| Metal tanks | 99.9 | 1.3 | 4.3 |
| Motors and generators | 118.0 | 0.3 | 3.6 |
| Motor trucks | 122.4 | 0.6 | −0.2 |
| Office and store equipment | 105.9 | 0.5 | 2.9 |
| Paperboard | 122.7 | 0.0 | 7.7 |
| Paper boxes and shipping containers | 119.5 | 0.4 | 7.2 |
| Paper office supplies | 110.6 | 0.9 | 2.3 |
| Paint | 109.5 | 0.7 | 2.1 |
| Plastic resins | 119.8 | 2.3 | 16.8 |
| Precision measuring tools | 116.8 | 0.1 | 3.5 |
| Pumps and compressors | 106.2 | 0.4 | 1.3 |
| Refractories | 112.5 | 0.6 | 2.4 |
| Rubber belts and belting | 101.4 | −0.9 | −3.1 |
| Scales and balances | 104.8 | 0.6 | 1.5 |
| Steel products | 107.3 | 1.0 | 6.4 |
| Switchgear | 110.5 | 0.5 | 1.6 |
| Textiles, synthetic fibers | 92.9 | −0.4 | 0.9 |
| Textiles, gray fabrics | 111.5 | 0.4 | 7.5 |
| Tires and tubes | 92.9 | 0.9 | 1.6 |
| Transformers and power regulators | 106.8 | −2.6 | 0.1 |
| Welding equipment | 113.3 | 1.3 | 2.8 |
| Wire and cable | 133.4 | 8.3 | 31.7 |

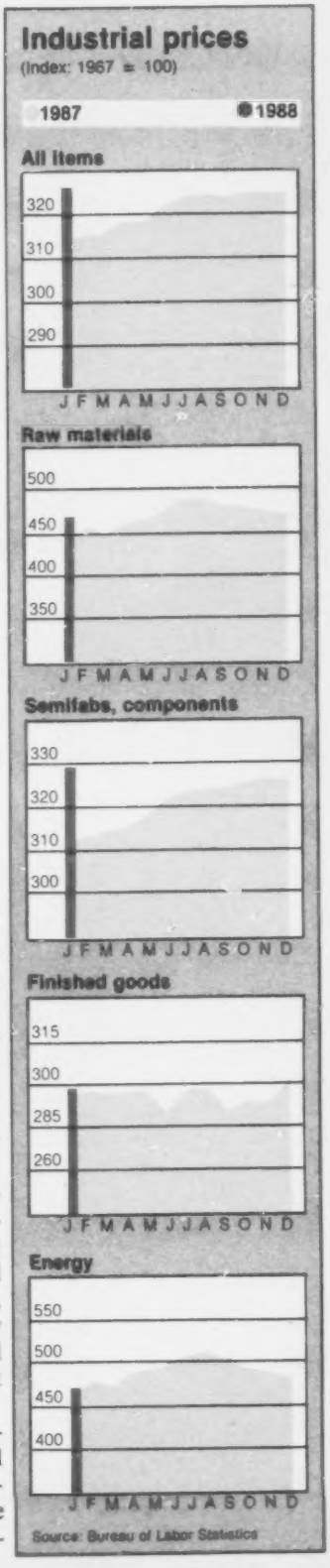
## CURRENT PRICES

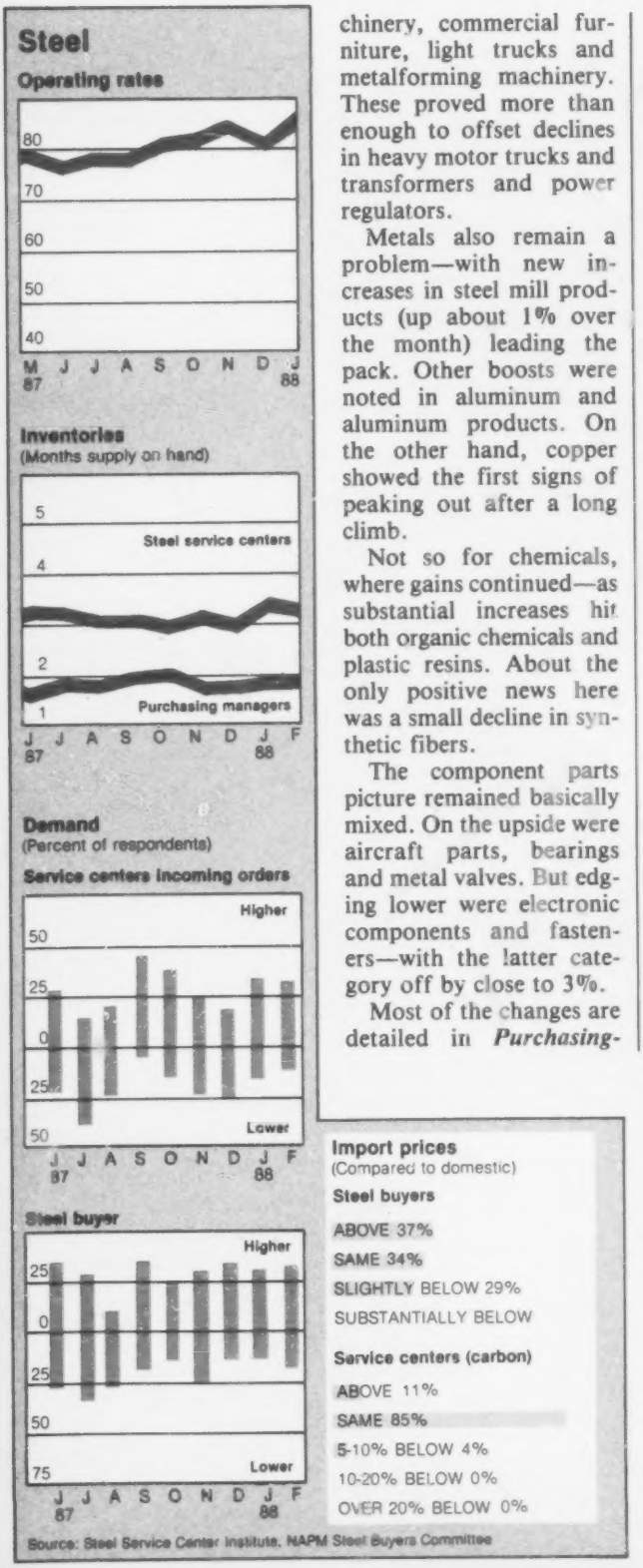
### Energy limits price advances

Credit falling energy quotes for again limiting the overall advance in industrial prices. Thanks to a big 3.2% falloff in this one sector, averages advanced only 0.2% (or about 2.5% at annual rate) over the latest month.

Big declines were reported in crude oil, gasoline, home heating oil, jet fuel, residual fuel, diesel fuel, liquid petroleum gas, and coal. About the only item to move up in the fuel and power sector last month was natural gas.

On a less rosy note, capital equipment continued to move moderately higher. Increases here were posted in construction ma-






chinery, commercial furniture, light trucks and metalforming machinery. These proved more than enough to offset declines in heavy motor trucks and transformers and power regulators.

Metals also remain a problem—with new increases in steel mill products (up about 1% over the month) leading the pack. Other boosts were noted in aluminum and aluminum products. On the other hand, copper showed the first signs of peaking out after a long climb.

Not so for chemicals, where gains continued—as substantial increases hit both organic chemicals and plastic resins. About the only positive news here was a small decline in synthetic fibers.

The component parts picture remained basically mixed. On the upside were aircraft parts, bearings and metal valves. But edging lower were electronic components and fasteners—with the latter category off by close to 3%.

Most of the changes are detailed in *Purchasing-World's* regular monthly rundown (see accompanying table). But note one difference from previous presentations. The latest index readings are now on a 1982 = 100 base—as contrasted to the old 1967 = 100 base. While this makes the index numbers a lot lower, it has no effect on the "percent change" figures shown in columns 2 and 3 of the table.

One interesting note, however: The overall index reading on the new base reads just above 104. Meaning: Prices on average have advanced only about 4% since that time—or less than 1% a year—a pretty good record coming off some of the double-digit rates of the late 1970s.

## STEEL SCENE

### High demand puts pressure on steel prices

There are still very few signs of a near-term steel buying slowdown. Growth has been the order of the day since last fall. Judging from the latest buyer and service center surveys, demand should continue brisk into spring.

The number of buyers anticipating an increase in steel receipts over the next three months (37%) is now running better than double the number expecting declines (17%). Equally significant, the 37% figure pointing to increases is the highest such reading in several years.

The distributor view—culled from the latest Steel Service Center Institute (SSCI) study is even more bullish. Specifically, 38% of SSCI respondents anticipate increases in new orders over the coming months—more than three times the 11% who feel some contraction is likely.

This, in turn, helps explain why almost all buyers remain concerned about availability. Biggest worries are centered in plate, hot rolled steel, cold rolled sheet, coated sheet and stainless.

On the other hand, some of these worries may be exaggerated. There are signs that demand could be topping out before too long. Certainly projections for durable goods production gains—only at a 1-2% annual rate over the next few quarters—would seem to indicate some leveling off in steel demand by spring and summer.

Such a flattening is also suggested by SSCI president Andrew G. Sharkey. While he remains confident about 1988 as a whole, he estimates that total distributor shipments will be between 22.5 and 23.5 million tons—pretty much unchanged from this past year's 23 million tons.

Sharkey also expresses some concern about inventory building, noting that stock on the service center level has edged up in recent months. He puts most of the increase in carbon flat-rolled and stainless steel products, with much of the impetus coming from hedge buying to beat anticipated price increases.

Similar hedging pressures probably were also at work on the steel buyer front. In any case, holdings are now put at a 1.96 months supply—again a noticeable jump over late 1987 readings.

This tendency toward somewhat heavier inventories is also borne out by the fact that 21% of buyers responding feel stock levels are too high while only 8% feel they're too low.

Service centers are pretty much in agreement here. Some 38% now rate their stocks as too high, versus only 11% who say they're too low. More important, this is the first time since last summer that the "too high" rating has predominated.

All this—despite the fact that the majority of service centers are bracing for still more price increases. Specifically, 88% are still talking in terms of higher metal replacement costs over the next six months.

About the only ray of hope here, if one can call it that, is that just 4% now believe steel quotes could actually fall by autumn. That compares to the fourth quarter of 1987 when not a single distributor was betting on a price decline.

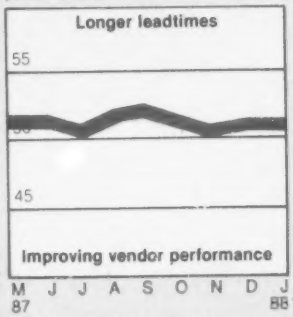
But while this slight hope of domestic price relief has crept into the overall figures, the same can not be said of imports. Service centers are virtually unanimous in noting that overseas carbon and stainless steels are now more expensive than their domestic counterparts.

And the situation isn't all that different in the buyers sphere. Just 2% say import prices are lower, but in all cases the differentials are quite small—certainly nothing like the bargains that were available just a few years ago.

**Monthly procurement status report**

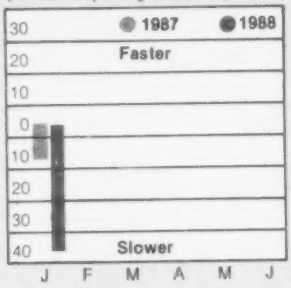
**Leadtime index**

A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



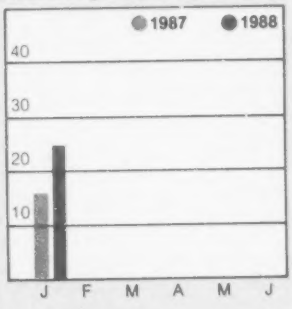

**Delivery performance**

(Percent reporting deliveries)



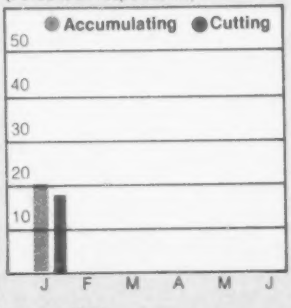

**Forward commitments**

(% committing 90 days or more in advance)




**Inventory strategy**

(Percent of respondents)




Source: NAPM

## PROCUREMENT STATUS

### Lead times are stretching out

Blame bigger-than-anticipated production gains for those still stretching lead times.

Sign of the times: *PW's* exclusive lead time index has edged up into the 52 range (two points above the neutral 50 mark). Nearly one of every three items monitored on a regular basis now takes longer to deliver than one year ago.

NAPM speed-of-delivery statistics tell much the same story. The number of buyers reporting slowdowns (30%) now tops those experiencing speedups (4%) by a better than 7:1 margin.

Some 12 items are now on the NAPM hard-to-get list. These include aluminum (particularly ingot), copper, hot- and cold-rolled steel sheets, steel plates, galvanized steel, stainless steel, tubing, ethylene, polyethylene, other plastic resins, methanol and titanium dioxide.

Buyers are trying to beef up their inventories. More purchasing managers added to, rather than subtracted from, their overall stocks in the past month—the first time since last fall that this has happened.

Why all the procurement problems? Part, of course, can be attributed to increased industrial activity; an increase that is largely fed by rising exports. On the latter score, some 39% of firms that export say their overseas orders are up—far outweighing the minuscule 3% who report a dip in export business.

Another factor has to be foot-dragging in capital spending. Superimpose this on a rising production curve and it helps explain why the average factory operating rate is now approaching the 83% mark—pretty close to the 85% level when bottlenecks generally become endemic.

### Procurement status report

**Chicago:** Aluminum coil and sheet have stretched (to 16-22 weeks); common alloy plate is out to 12-20. But aluminum bars and angles are in (to 4-8). Capacitors are also in (to 10-16). But other electronic components remain the same.

**Los Angeles:** No problems with steel bar and coil (still at 2 weeks); ditto to standard fasteners (4), steel strapping (2), and polyethylene bags (4). Somewhat longer leads are noted for standard valves (10-12), standard bearings (20-24), wire-round and metal film resistors (8-12), and linear ICs (30).

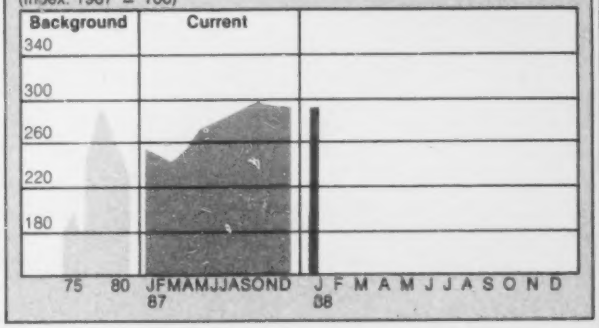
**Philadelphia:** Steel mill products are out to these new weekly waits: stainless hex, round shapes, and round coil (18-20), carbon hex and round shapes (12-14), carbon and alloy seamless tube (4), and stainless extruded tube (14).

# BUSINESS DATATRAK

**Raw material price barometer**

**Latest month 292.8**
**Month before 293.1**
**Year ago 252.8**

(Index: 1967 = 100)



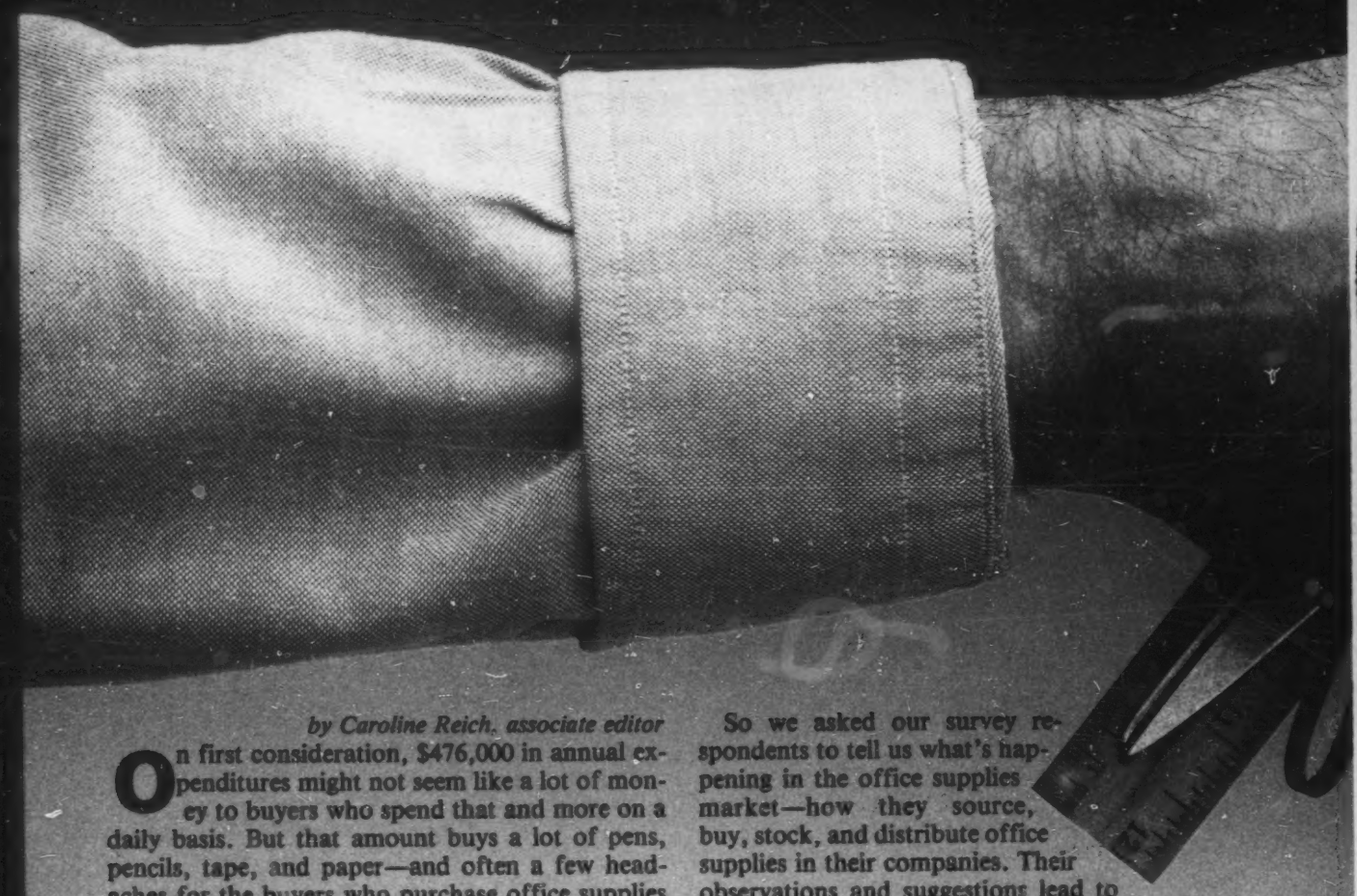

## Latest spot market prices

| | Latest price | Previous month | Year ago |
|---|---|---|---|
| **FERROUS METALS** | | | |
| Pig iron, basic, valley, gross ton | 213.00 | 213.00 | 213.00 |
| Pig iron, Bessemer, Pitts., gross ton | 213.00 | 213.00 | 213.00 |
| Steel, billets, Pitts., net ton | [illegible].00 | 367.00 | 367.00 |
| Steel, structural shapes, Pitts., cwt. | [illegible]90 | 23.90 | 23.90 |
| Steel, structural shapes, Chi., cwt. | [illegible]90 | 23.90 | 23.90 |
| Steel, structural shapes, Los Angeles, cwt. | [illegible].90 | 23.90 | 23.90 |
| Steel, bars, dlvd. Phila., cwt., merchant quality | 16.50 | 16.50 | 23.95 |
| Steel, bars, Pitts., cwt. | 16.50 | 16.50 | 23.95 |
| Steel, bars, C.R., Pitts., cwt. | 19.45 | 19.45 | 31.00 |
| Steel, plates, Pitts., cwt. | 19.75 | 19.75 | 18.25 |
| Steel, plates, H.R., Pitts., cwt. | 19.75 | 19.75 | 18.25 |
| Steel, sheets, C.R., Detroit, cwt. | 28.15 | 28.15 | 26.90 |
| Steel, strip, C.R., Chi., cwt. | 36.18 | 36.18 | 36.18 |
| Steel, basic wire, Pitts., cwt. | 23.65 | 23.65 | 23.65 |
| **NONFERROUS METALS** | | | |
| Aluminum, ingot, lb. (market place) | .920 | .890 | .570 |
| Antimony, N.Y., dealer, lb. | 1.14 | 1.12 | 1.03 |
| Beryllium-copper, cost ingot, lb. | 5.90 | 5.90 | 5.65 |
| Brass, red, 85%, [sheet], lb. | 1.72 | 2.04 | 1.29 |
| Brass, yellow, [sheet], lb. | 1.67 | 1.99 | 1.24 |
| Cadmium, N.Y., dealer, lb. | 3.50 | 3.00 | 0.95 |
| Copper, electrolytic, wire bars, refd., lb. | 1.08 | 1.40 | .65 |
| Copper sheet, over 24 in., lb. | 1.81 | 2.13 | 1.38 |
| Lead, common, N.Y., lb. | .370 | .380 | .260 |
| Magnesium, pig ingot, [99.8%], lb. | 1.53 | 1.53 | 1.53 |
| Mercury, 20 fl. lots, N.Y., fl. | 360.00 | 345.00 | 210.00 |
| Molybdenum, oxide, dealer, lb. | 3.15 | 3.03 | 3.10 |
| Nickel, cathode, dealer, lb. | 3.80 | 3.80 | 1.78 |
| Platinum, dealer, oz. | 445.00 | 500.00 | 524.00 |
| Silver, N.Y., oz. | 6.43 | 6.81 | 5.54 |
| Tin, N.Y., dealer, lb. | 3.15 | 3.20 | 3.17 |
| Zinc, Prime West, East St. Louis, lb. | .46 | .45 | .38 |
| Zinc, die casting alloy, No. 3, lb. | .515 | .505 | .465 |
| **PAPER** | | | |
| Uncoated book #3 offset, ton | 890.00 | 890.00 | 860.00 |
| Watermarked bond, ton | 985.00 | 985.00 | 985.00 |
| Gummed sealing tape, carton | 17.09 | 17.07 | 16.29 |
| Grocery sacks, ton | 435.00 | 435.00 | 390.00 |
| Solid bleached paperboard, ton | 650.00 | 650.00 | 620.00 |
| Kraft linerboard, 42 lb., unbleached, ton | 380.00 | 380.00 | 330.00 |
| **TEXTILES** | | | |
| Burlap, 10 oz., 40", N.Y., yd. | .276 | .274 | .238 |
| Cotton drill, 1.85, 59", 68x49, N.Y., yd. | 1.240 | 1.240 | 1.085 |
| Cotton middling, 1", N.Y., lb. | .564 | .600 | .530 |
| Printcloth, 48", 80x80, N.Y., spot, yd. | 0.92 | 0.92 | 0.95 |
| Army duck, 37", 13 oz., yd. | 1.510 | 1.510 | 1.405 |
| Blended printcloth, 64", 78x54, yd. | .72 | .80 | .82 |
| 20s combed yarns | 2.00 | 2.00 | 1.77 |
| Wool 64s, Staple, lb. | 3.87 | 3.00 | 2.00 |

| | Latest price | Previous month | Year ago |
|---|---|---|---|
| **CHEMICALS** | | | |
| Acrylonitrile, tanks, lb. | .395 | .395 | .395 |
| Ammonia, anhydrous, tankcars, Gulf Coast, ton | 75.00 | 75.00 | 80.00 |
| Benzene, petroleum, tanks, Houston, gal. | 0.95 | 0.85 | 1.20 |
| Caustic soda, 76% solid, drums, carlots, cwt. | 26.00 | 26.00 | 26.00 |
| Cresylic acid [over 25%], tanks, lb. | .58 | .58 | .58 |
| Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb. | .106 | .106 | .106 |
| Glycerine, synthetic, tanks, lb. | .685 | .780 | .910 |
| Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants | .49 | .44 | .28 |
| Naphthalene, crude, tanks, lb. | .22 | .22 | .22 |
| Phthalic anhydride, tanks, lb. | .32 | .32 | .27 |
| Polyethylene resin, low density liner film grade (market place), lb. | .425 | .385 | .290 |
| Polypropylene, homopolymer grade (market price), lb. | .495 | .470 | .345 |
| Polystyrene, general purpose grade (market price), lb. | .55 | .55 | .39 |
| Polyvinyl chloride, pipe grade (market price), lb. | .390 | .380 | .305 |
| Soda ash, 58%, light carlots, cwt. | 6.15 | 6.15 | 6.15 |
| Styrene monomer, 99.6%, tanks, lb. | .46 | .42 | .26 |
| Sulphur, crude, ex-terminal, Tampa, Fla., lt. | 127.50 | 127.50 | 152.50 |
| Sulphuric acid, 66%, commercial, tanks, ton | 66.86 | 66.86 | 66.86 |
| Titanium dioxide, anatase, reg., carlots lb. | .800 | .800 | .770 |
| Xylene tanks, gal. | .760 | .745 | .765 |
| **BUILDING MATERIALS** | | | |
| Lumber, 2x4 fir, mbf, cl | 320.05 | 320.35 | 322.90 |
| Lumber 2x2 pine, mbf, cl | 322.55 | 322.10 | 314.40 |
| Plywood, plyform, ⅜", msf, cl | 568.90 | 569.85 | 585.05 |
| Plywood, ⅜", msf, cl | 397.85 | 395.45 | 384.95 |
| Cement, bulk, ton, tl | 64.07 | 63.73 | 63.28 |
| Sand, ton, cl | 7.31 | 7.31 | 6.70 |
| Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd. | 48.84 | 47.42 | 48.07 |
| Crushed stone, 1½", ton, cl | 8.34 | 8.26 | 8.08 |
| Concrete blocks, sand/gravel, 8"x8"x16", ea., tl | 0.92 | 0.91 | 0.84 |
| Gypsum sheathing, ½"x1"x8", msf, tl | 225.54 | 225.54 | 213.52 |
| Brick, common, per thousand, tl | 201.12 | 200.91 | 186.96 |
| Asphalt paving, AC-20 | 139.05 | 139.37 | 124.05 |
| Concrete sewer pipe, 12", prem. joint, per foot, cl | 7.58 | 7.57 | 7.36 |
| **FUELS** | | | |
| Fuel oil, No. 6 or Bunker C, Gulf., bbl. | 11.50 | 14.75 | 11.50 |
| Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller | 19.50 | 19.75 | 17.00 |
| Gasoline, 91 oct., reg., Los Angeles, rack, gal. | .540 | .560 | .375 |
| Gasoline, 94 oct., reg., Chi., tank car, gal. | .495 | .540 | .428 |
| Heating oil, No. 2, Chi., bulk, gal. | .550 | .585 | .430 |
| Heating oil, No. 2, N.Y., bulk, gal. | .563 | .568 | .438 |
| Heavy fuel, PS 400, Los Angeles, rack, bbl. | 26.50 | 26.50 | 26.50 |
| Jet kerosene, gal. | .528 | .553 | .433 |
| LP-Gas, propane, Okla., tank cars, gal. [incl. discount] | .260 | .260 | .240 |
| **SCRAP MATERIALS** | | | |
| Steel, No. 1, hvy., dlvd., Pitts., ton | 124.00 | 102.00 | 83.00 |
| Steel, No. 1 hvy., dlvd., Chi., ton | 117.00 | 100.00 | 77.00 |
| Copper, No. 1, East, wholesale buy, dlvd., lb. | 0.880 | 1.130 | 0.555 |
| Copper, No. 2, East, wholesale buy, dlvd., lb. | 0.785 | 1.035 | 0.480 |
| Brass, red, East, wholesale buy, dlvd., lb. | 0.840 | 1.090 | 0.515 |
| Brass, yellow, East, wholesale buy, dlvd., lb. | .415 | .425 | .330 |
| Alum., old sheet/cast, E., wholesale buy, dlvd., lb. | .575 | .550 | .355 |
| Alum., mixed clip., E., wholesale buy, dlvd., lb. | .660 | .645 | .380 |
| Zinc, old, East, wholesale buy, dlvd., lb. | .20 | .20 | .20 |
| Lead, clean solids, East, wholesale buy, dlvd., lb. | .240 | .240 | .155 |
| Paper, No. 1 mixed, dlr., N.Y., ton | Nom. | Nom. | Nom. |
| Paper, old corrug. box, dlr., Chi., ton | 25.00 | 25.00 | 28.00 |
| Paper, old corrug. box, dlr., N.Y., ton | 10.00 | 10.00 | 22.00 |
| Osnaburg cuttings, dlr., f.o.b. N.Y., lb. | .12 | .12 | .09 |
| White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb. | .23 | .23 | .11 |

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

# Get a grip on office supplies



*by Caroline Reich, associate editor*

On first consideration, $476,000 in annual expenditures might not seem like a lot of money to buyers who spend that and more on a daily basis. But that amount buys a lot of pens, pencils, tape, and paper—and often a few headaches for the buyers who purchase office supplies for their companies.

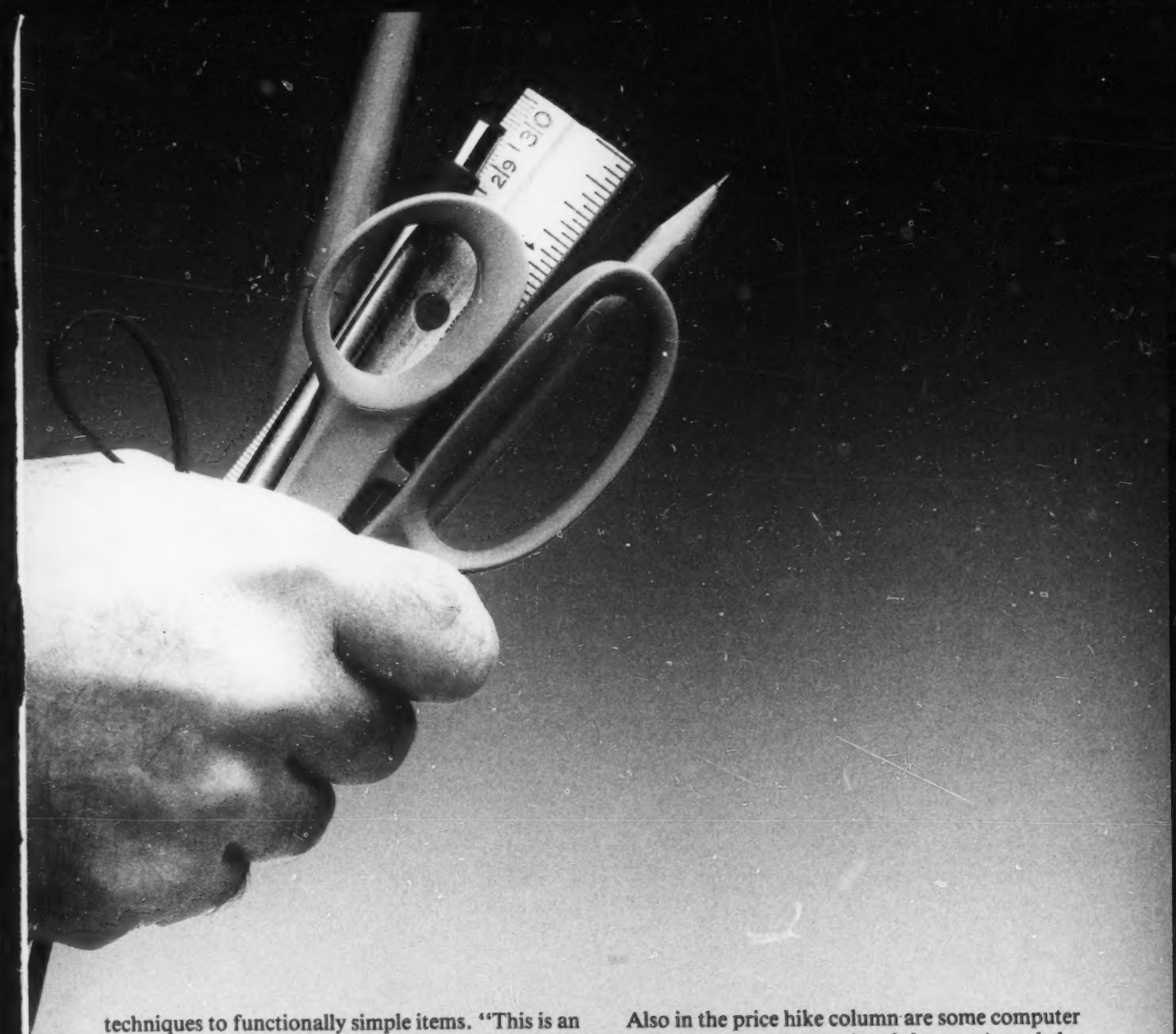
That $476,000 figure is the average amount the respondents to *PurchasingWorld's* annual office supplies buyer survey expect to spend on office supplies in 1988. And some survey respondents spend much more—four spend more than $4 million annually on the "small" items (pens, pencils, paper, desk accessories, diskettes, rubber bands, paper clips, tape, staplers, etc.) that keep today's office running smoothly. Anyone who spends that much on such a complex sector must have a good idea about what it takes to put order into office supplies buying.

So we asked our survey respondents to tell us what's happening in the office supplies market—how they source, buy, stock, and distribute office supplies in their companies. Their observations and suggestions lead to one conclusion—this is a tough "commodity" to manage, but once you get a handle on it, there's lots of money to be saved for your company.

**On the price front**

Office supplies are especially difficult to manage because they tend to be high-volume, low price point items. Add in the special problems of buyers who are purchasing for multiple locations (a growing phenomenon) and it's easy to see why savvy buyers are focusing on better buying here.

The challenge is to apply sophisticated buying



techniques to functionally simple items. "This is an area where the 80/20 rule applies," explains one southern hospital buyer. "Office supplies are part of the 20% of the stuff that causes 80% of the problems."

Almost 80% of survey respondents tell us that they plan to buy more office supplies in 1988 than in 1987—an average of 4.1% more in annual expenditures. They also report that the major trouble spot is in paper and related supplies. Several respondents report that they have been put on allocation and are facing price hikes of as much as 11% on some lines. Several companies are lucky enough to have negotiated long-term contracts for paper. National Broadcasting Company (NBC) in New York, for example, holds a 2-year contract with price protection for its stationery purchases. "Without the contract," says Tom O'Grady, director of general purchasing, "we'd be facing 3-5% increases this year."

Also in the price hike column are some computer supplies, pens, and preprinted forms. Actual decreases are being reported for printer and typewriter ribbons, computer diskettes, and copier supplies.

**Cleaning up the supply cabinet**

In most companies the end of the line and the bottom line is the office supply cabinet. End users really don't care how purchasing gets the supplies into the cabinet or how much the company saves on each pen. If they need a bottle of correction fluid or a ream of copy paper and it's not in the cabinet—purchasing will hear about it. So it is necessary for the buyer to keep a close eye on his customers' needs and usage patterns. Jay Peterson, technical buyer for Tonka Corp., Minneapolis, MN, stresses the importance of standardizing the items to cut down on the number of brands and items carried. Instead of using 20 different styles of

pens from five different companies, he suggests, limit your purchases to one or two brands for each type of item. This tactic has lead one midwestern office supplies buyer to reduce her vendor base and number of invoices by half.

About 80% of survey respondents have put together a "laundry list" of most commonly used supplies. Many conducted extensive user surveys to determine brand preferences, consumption levels, and specific needs to build the list. They use this list as a requisition form for each company department—and as the basis for soliciting bids for contracts from office supplies vendors.

Some particularly inventive buyers have actually done away with supply cabinets entirely. One large northeastern insurance company has a central "company store" where all office supplies are dispensed. Another smaller firm has each employee fill out an order form quarterly on the items he or she will need for that period.

**The inventory issue**

It seems that the first place our survey respondents look to cut office supplies costs is inventories. Bloated inventories spell wasted dollars. So it's not surprising that stockless purchasing programs of some type are in effect at 53% of respondents' companies. The most common method is for a company to negotiate a long-term blanket contract for the most commonly used products. Then internal requisitions are gathered weekly or daily and sent (often by computer) directly to the vendor.

For O'Grady at NBC, operating with almost no inventory is expected to work well. His department negotiated a national contract covering five company locations that allows requisitions to go from user departments directly to the vendor. "Employees may have a few items squirreled away 'just in case' but that's much better than overflowing supply cabinets in every department," O'Grady explains.

Stockless programs can be very effective at holding costs down, but two factors must be present for them to work: 1) a reliable dealer whose operation is capable of quick action, and 2) cooperative end-users. "You're more or less at the mercy of your dealer—playing it very close," comments one midwestern utility company buyer. Nearly every respondent in the survey stressed the importance of studying a vendor's setup and capabilities before doing business with it.

Other methods of keeping office supplies inventory under control suggested by survey respondents include:

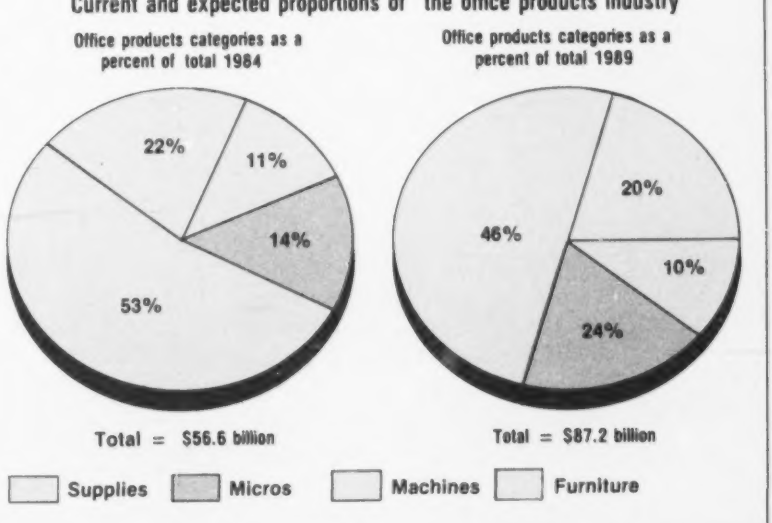
- Get your dealer to carry your inventory for you—on your company premises. In effect, the dealer would operate a store in your company, billing you only for what you use, when you use it. This arrangement has worked very well for National Liberty Insurance Co., in Frazier, PA according to corporate purchasing manager, Donna Moe.
- Stock only a small quantity of commonly used items.
- Use a computer system to track items and usage. Many dealers will install a computer hookup directly from a company to the dealer's facility.
- For small offices, manual inven-

## Office supplies mix will change

According to a major study by the National Office Products Association (NOPA), the office products industry will ship $87.2 billion worth of goods (in 1985 dollars)—representing an annual growth rate of 9.0%. Office machines will grow the fastest at 7.1%—and at 13.1% if you include microcomputers. Office furniture will grow moderately, at 6.9% to reach $8.4 million by 1989. Growth in supplies will be slower at 5.9%, with shipments totalling $40.3 billion by 1989.

Technological change and increased competition will each affect the office supplies distribution channel. The NOPA study predicts that office products dealers will have to decide on which basis they wish to compete—price, service, or market niche. For buyers this means an even better choice of vendor options in the near future.

For more information about the NOPA Study, **Circle 11**



tory is still a viable method. However, survey respondents warn that it will only work if inventory counts are done frequently and if record-keeping is extensive.

**How buyers buy**

How companies manage their inventories has everything to do with where they buy their supplies. Today, dealers and distributors are offering a myriad of inventory-related services as a way of enticing new customers. A buyer can select a "full-service" dealer with whom he can hook up electronically for ordering, billing, and the like—or he can go in the opposite direction and buy from a "no-frills" direct mail order house and get super-low prices but no special services.

Our survey revealed that most buyers want and need the help dealers can give them in getting control of office supplies. Indeed, nearly 93% use local or regional dealers for the bulk of their supplies buying; 26% use local dealers exclusively.

Larger companies, especially those with centralized purchasing systems, may need the services of a national dealer or distributor. J.G. Schenk, purchasing manager of Westinghouse Electric Corp., Pittsburgh, PA, currently buys for several company locations on a national contract negotiated every three years with a large national distributor. Each location then orders its supplies directly from the distributor and the material is shipped to that location. Under such a system, companies get all the advantages of a local dealer with the volume discounts of a combined corporate purchase.

Another option which is gaining popularity for some buyers is the use of direct mail-order houses. These outfits sell a fairly limited selection of products at very attractive prices through a catalog. Thomas Christie, purchasing manager for Jostens Inc. Nashville, TN, says that he occasionally buys office supplies from mail order companies when they run a really good sale. "They may sell legal pads for 10% less than my dealer's discounted price and I'll buy. But you have to be careful because shipping costs can often eat up the cost savings you think you're making," explains Christie. He also adds that if the mail order price is only marginally better than his local dealer's, he'll go with the slightly higher price in order to maintain his strong relationship with the dealer.

**Service for sale's sake**

Smart buyers know that you can't put a price tag on good dealer service, especially when so many companies are operating with lean or non-existent inventories. Buyers responding to the *PW* survey indicate that they would like to see (in order of preference) faster deliveries, more efficient billing procedures, direct computer links for ordering and accounting, consigned stock programs, and more frequent sales contact.

In today's hotly competitive office supplies market, it only makes sense for dealers to listen to what their customers are asking for. The result is that some very innovative programs are now in place to streamline supplies buying. Here are some mentioned by *PurchasingWorld's* survey respondents:

- Rebates on orders placed
- Computerized order entry and automatic computerized billing and auditing programs
- Stockless inventory systems set up by the dealer
- 12-, 24-, 48-hour guaranteed delivery with price breaks for customer if shipment is late
- The use of bonus points accrued by customer for dollar totals of orders placed
- Payment perks such as 90- and 120-day billing, no finance charges, bonuses for immediate payment
- Free gifts and promotions
- Free delivery on large orders

As one respondent remarked, "If you're not getting these kinds of services, you're either dealing with the right vendor."

**And the experts say...**

We were very impressed with the creativity and professionalism our reader-respondents demonstrated in buying office supplies. They each have realized that office supplies buying is not a "nickel and dime" operation. We asked them to share some of their tips and advice for getting a grip on buying this unique commodity.

- Be sure that you develop a good record-keeping system. All those small items and hundreds of requisitions have a way of falling through the cracks if you don't keep a close watch. A computer can help here.
- Develop a "laundry list" or contract/item list to assist in requisitioning and bidding.
- Standardize the office supplies *and* equipment used at your company. It will make ordering facsimile and copier supplies a lot easier if they all use the same size or type of supplies.
- Cut down on the number of items stocked.
- Keep a list of model numbers for all typewriters, copiers, facsimile machines, computers, and printers in your company or location; keep this list handy for easy reference when reordering supplies.
- Sign long-term blanket contracts with a reputable vendor. Be sure to negotiate favorable payment terms, price protection, escalation clauses, delivery specs, etc. up front.
- If you are a very small volume buyer, consider banding together with other nearby firms to buy supplies as a group to take advantage of volume discounts. This also works for multiple company locations.
- Stay away from gimmicks and free gift offers—they usually end up costing more.
- Convince your office supplies vendor to carry your inventory.
- Find a good vendor and stick with it. Finding one may take months and negotiating a deal may take even longer, but remember that it costs money every time you switch vendors and it takes time, too.
- Be sure to ask for what you want. Go to potential vendors with a "wish-list" and stick to it.
- Specify carefully.

One last piece of advice from a California high-tech buyer seems to sum it all up: "Unless you consider office supplies as important a purchase as a piece of capital equipment or manufacturing materials, you won't buy right and that's no good for your company." ***PW***

# Bulls in business equipment

*by Robert S. Reichard, executive editor*

Purchasing executives aren't the only group bullish on the business equipment industry. Marketing analysts at the Computer and Business Equipment Manufacturers Association (CBEMA) are calling for strong 1988 growth without any increase in prices. In fact, CBEMA predicts that prices may actually drop slightly over the next few quarters.

Equally important is the fact that CBEMA's long-range projections—into the mid-1990s—show little evidence that this trend will change much. Here are some of the 217-page study's key findings:

**Overall 1988 demand**

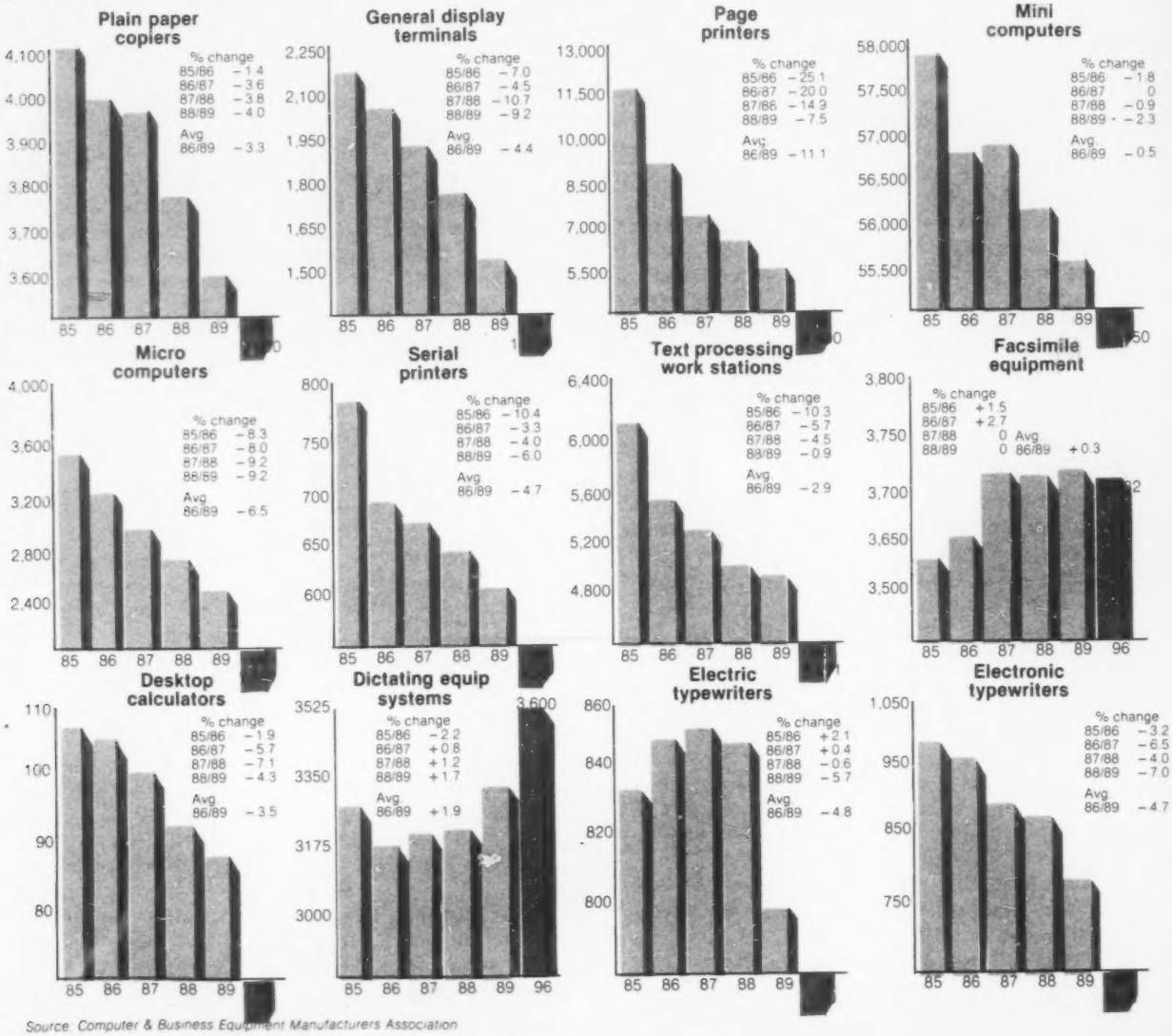
Purchases of computers and other business equipment (excluding telecommunications) should top $217 billion—nearly 10% above 1987 levels. Add in the telecommunications sector with its 8% growth, and $418 billion in purchases could clear the market this year.

**Overall 1988 price trends**

Comparing dollar and unit sales data suggests that the average unit quote may be falling in quite a few sectors (see chart). Even this might

## Business equipment price trends—the industry view

(Average unit price in dollars)




*Source: Computer & Business Equipment Manufacturers Association*

not tell the whole story—unit prices don't take into account the considerable upgrading that should continue in the high-tech field. Biggest unit price declines this year are projected for microcomputers and printers.

**Long-term growth**

Bullish demand should continue into the 1990s, aided by shortages of office workers and technological advances which will enhance office productivity and keep procurement costs low. Purchases of computers and related equipment are expected to exceed $255 billion by 1996—for an average annual growth of 9%. Software and services revenues will grow at an even larger 10.5% annual pace. This latter sector should exceed $120 billion, accounting for 27.5% of the computer industry's total revenues by the mid-1990s.

Over the same period, other types of business equipment (excluding manifold business forms) should increase at an average annual rate of 8.1%. Manifold forms will advance at a lower 6.5% annual rate.

The computer and business equipment industry as a whole (excluding telecommunications) is targeted to grow at a 9.2% rate. Totals will hit $443 billion by 1996 and will account for 5.3% of the U.S. gross national product.

Telecommunications equipment and services demand will grow at a less stellar rate of 5.9%. This segment should grow even more slowly than nominal (current dollar) GNP.

The major reason for this rather sluggish growth rate is a sharply declining price curve (due to competitive infighting among suppliers) rather than a levelling off of demand. Competition here will not be limited to telecommunications. In fact, buyers will be calling the shots in most business equipment product lines.

Here is a capsule summary of CBEMA projections:

- **Microcomputers:** Unit consumption between 1986 and 1996 should grow by 20.4% annually, while dollar value should rise at 13.9% annually. The implication is that prices will fall about 6.5% per year.
- **Minicomputers:** Dollar value over the next decade should advance at an 8.8% annual rate—with consumption more than doubling (to $12 billion) by 1996. Unit sales will increase at an average annual rate of 9.4%—to 220,946 units in 1996. Unit prices, therefore, are expected to remain fairly stable—edging down only 0.5% a year.
- **Mainframes:** Between 1986 and 1996, consumption is expected to rise 3.4% annually, reaching 13,800 units. The value of shipments will rise 3.3% a year—reaching $15.24 billion in 1996. Conclusion: Average unit prices of fifth generation mainframes (large-scale integration computers and supercomputers with list prices of more than $300,000) will remain relatively unchanged over the decade.
- **General purpose display terminals:** Unit sales by 1996 will fall to the 1.5 million level—representing an annual average decline of 2.4% from 1996. Dollar sales will drop even more sharply—from $3.8 billion in 1986 to $1.9 billion in 1996. This implies continued price cuts (to meet competitive pressures from microcomputers). This should be enough to bring average unit prices down to $1,294 by 1996—off about $2,000 from 1986. This would represent an average price decline of 4.4% per year.
- **Printers:** Sales of line printers have peaked. By 1996, unit sales are expected to decline to 19% of 1986's level. Their place is likely to be taken by page printers which are forecast to jump 29.2% a year in unit sales. Page printer prices should fall 11.1% annually over the same period. They should also make inroads against serial printers where market share in dollar terms will fall sharply from 42.8% in 1986 to 30% in 1996.
- **Calculators:** A pattern of rising unit sales and decreasing prices will prevail for both hand-held and desktop models—the average price erosion is estimated at about 3.5% annually. By 1996, desktop types will account for more than 85% of the industry's overall revenues—compared to the current 82% figure. But the cheaper hand-held types will continue to hold a bigger share of unit shipments—estimated around 65% of the market in the mid 1990s.
- **Copiers:** During the next decade, shipments of plain paper units (excluding machines priced under $500) are forecast to grow at 10% annually—reaching 3.2 million units by 1996. The dollar value will increase at a slower 6.7% annual rate as the industry's penetration of low-end markets continues and unit prices fall 3.3% (to an average $3,000 by the mid 1990s).
- **Dictating equipment:** Long-term market growth is put at 1.3% annually in volume terms and 2.7% in value terms. Portable models should lead in unit sales as they have in the past decade. But even here, growth will be only 1.7% a year. Contrary to trends in other business equipment sectors, unit price quotes will increase slightly—primarily because of increased product functionality.
- **Facsimile equipment:** After big recent gains, growth is expected to slow down a bit over the next 10 years as 1) the market becomes more mature, 2) competition from the paperless office heats up, and 3) prices stabilize near current levels. Nevertheless, unit shipments should still sport a healthy 9.4% annual growth rate, with value advances in the 9.7% range.
- **Text processing workstations:** Unit sales over the next 10 years should grow at a 13.4% annual rate—to over 2.3 million units by 1996. That's more than triple the 660,000 figure of 1986. Prices should fall by about 3% per year. More relatively inexpensive personal computers dedicated to text processing will take an increasing share of the market—as electronic typewriters peak and then decline.
- **Typewriters:** Electronic types should take over the office typewriter marketplace as product enhancement and falling unit prices (declining at about 4.7% annually) make the electronic units more desireable. Nevertheless, unit sales for electronic models are projected to drop slightly (about 0.6% a year) as competition from PCs and text processors intensifies. Even bigger unit declines are indicated in electric typewriters—volume is likely to be cut in half over the next decade. ***PW***

# Transportation prices staying down

There's good news on the transportation front. Current and projected freight rate increases are being revised downward.

As recently as three months ago, Wharton Econometrics (the consulting firm which provides *PW* readers with rate projections every quarter) was estimating that the overall 1987 and 1988 advances would be 4.0% and 4.2%, respectively (see *PW*, 12/87, page 44). But just-revised data suggest a significant reduction—the new figures point to only 2.9% increases for both years.

Contributing to the moderation are 1) relatively small boosts in labor costs, 2) still low, although increasing energy prices, and 3) overcapacity in some sectors. Another factor: healthy intra- and intermodal competition.

Over the ensuing years, however, price pressures should begin to build a bit. Specifically, wage increases are expected to accelerate and overcapacity problems should abate as demand continues to rise. Despite all this, boosts will remain in the tolerable range—4.8% next year and 5.6% in 1990.

As usual, these averages obscure individual modal differences--with the more specific trends expected to shape up like this:

■ **Trucking**: Growth exceeded the general industrial production advance last year—thanks to inroads made at the expense of other modes and a relatively sharp gain in nonmanufacturing shipments. But despite good demand gains, prices rose only 2.9%.

As for the new year, lower oil tags over the next few quarters will certainly help to keep a lid on costs. But labor pressures, due to a shortage of drivers, will work in the opposite direction. All in all, price increases are expected to average near 3.2% this year.

■ **Railroads**: Good gains in 1987 can be traced to increased shipments of steel and the raw materials used in their production. But this is an area that will likely see lower volumes in 1988. Auto shipments are also likely to drop this year, while coal and grain could see some small gains.

The critical problem for rail this year will be continued tough competition from trucking.

The one advantage rail gets from trucking is the intermodal link. Not surprising, piggyback traffic has consistently been the healthiest volume segment in recent years.

Both the competition and the intermodal links, however, are good news for shippers—with an added dividend coming from the growing use of doublestack LTL carriage. In any event, prices are forecast to grow at only a 2.5% pace this year—actually under 1987's estimated 3.1% advance. Some moderate acceleration—to 4.7%—is forecast for 1989.

■ **Air cargo**: Traffic was up dramatically (nearly 9%) last year according to the Air Transport Association. Freight advanced 10.2%, with a smaller 4.5% boost recorded for mail. More important, demand should continue to improve.

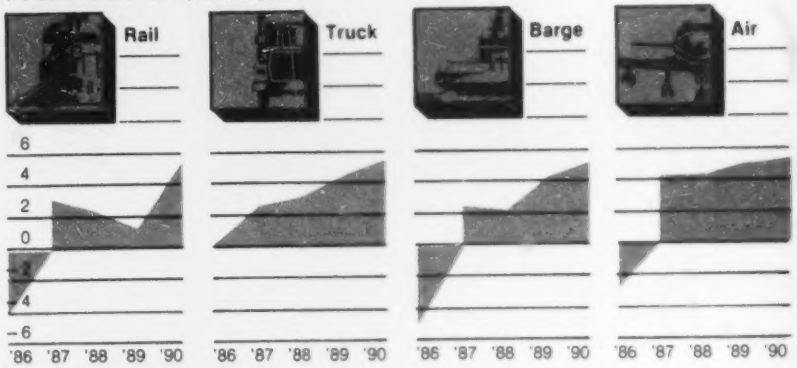
Air rate increases are also likely to be high this year compared to the other modes—jumping 4.3% (the same rate increase as last year).

■ **Water freight**: The industry appears to have leveled off after a 10-year decline that claimed a large number of operators as victims. The survivors are much stronger than before the shakeout—and both grain and chemical traffic has begun to pick up.

However, the industry's rate structure will continue to be held down by the huge, albeit shrinking, surplus of barges that could still take years to work off through scrappage. Thus waterfreight rates will continue to show the smallest gains of all transportation services. This year rates are targeted to rise only 2.2%—even less than in 1987. Next year's advances will be held to 4.3%. ***PW***

## Freight cost outlook by mode

(Percent increase over previous year)




Source: Wharton Econometric Forecasts

## PurchasingWorld freight rate index

(1982 = 100)